

ORIGINAL

OPEN MEETING AGENDA ITEM



0000166701

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2015 NOV -5 P 1:39

AZ CORP COMMISSION
DOCKET CONTROL

SUSAN BITTER SMITH
CHAIRMAN
BOB STUMP
COMMISSIONER
BOB BURNS
COMMISSIONER
DOUG LITTLE
COMMISSIONER
TOM FORESE
COMMISSIONER

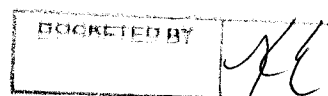
IN THE MATTER OF THE APPLICATION OF
UTILITY SOURCE, LLC, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANTS AND PROPERTY AND FOR
INCREASES IN ITS WATER AND
WASTEWATER RATES AND CHARGES
FOR UTILITY SERVICE BASED THEREON.

Docket No. WS-04235A-13-0331

Arizona Corporation Commission

DOCKETED

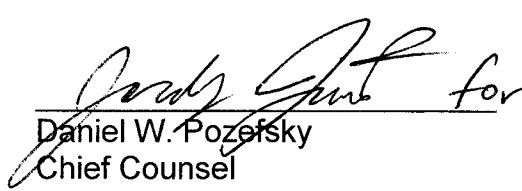
NOV 05 2015



NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Direct Testimony of Robert Mease in support of the Settlement Agreement, in the above-
referenced matter.

RESPECTFULLY SUBMITTED this 5th day of November, 2015.


Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 5th day
3 of November, 2015 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 COPIES of the foregoing hand delivered/
9 mailed this 5th day of November, 2015 to:

10 Scott Hesla
11 Administrative Law Judge
12 Hearing Division
13 Arizona Corporation Commission
14 1200 West Washington
15 Phoenix, Arizona 85007

16 Wes Van Cleve
17 Matthew Laudone
18 Legal Division
19 Arizona Corporation Commission
20 1200 West Washington
21 Phoenix, Arizona 85007

22 Thomas Broderick, Director
23 Utilities Division
24 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Steve Wene
Moyes Sellers & Hendricks Ltd.
1850 N. Central Ave., Suite 1100
Phoenix, Arizona 85004
Attorneys for Utility Source, LLC

Terry Fallon
4561 Bellemont Springs Dr.
Bellemont, Arizona 86015

Erik Nielsen
4680 N. Alpine Dr.
P.O. Box 16020
Bellemont, Arizona 86015

By Cheryl Fraulob
Cheryl Fraulob

UTILITY SOURCE, LLC
DOCKET NO. WS-04235A-13-0331

DIRECT TESTIMONY
OF
ROBERT B. MEASE
IN SUPPORT OF THE
SETTLEMENT AGREEMENT

ON BEHALF OF THE
RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 5, 2015

1

Table of Contents

2

EXECUTIVE SUMMARY i

3

INTRODUCTION 1

4

THE SETTLEMENT PROCESS 2

5

SUMMARY OF TESTIMONY 3

6

SETTLEMENT PROVISIONS 4

7

PUBLIC INTEREST 5

8

AREAS OF IMPORTANCE 5

9

ATTACHMENTS 7

10

EXECUTIVE SUMMARY

The Arizona Residential Utility Consumer Office ("RUCO") presents the direct testimony of Robert B. Mease, Chief of Accounting and Rates, in support of the Proposed Settlement Agreement ("Settlement" or "Agreement") on Utility Source, LLC's ("Utility Source") request for a permanent rate increase. Mr. Mease recommends that the Arizona Corporation Commission adopt the Proposed Settlement Agreement for the following reasons:

The Proposed Settlement Agreement reflects an outcome that is fair to both the ratepayer and Utility Source and is in the public interest.

The Proposed Settlement Agreement is a comprehensive settlement agreement. Its terms settle a wide range of issues that were of interest to the parties.

RUCO supports the Proposed Settlement Agreement in its entirety because it contains numerous benefits to the consumer which will be discussed in Mr. Mease's testimony.

The Proposed Settlement Agreement resolves a couple areas of importance to RUCO in the underlying rate case including: 1) phasing in rates to mitigate impact on residential consumers, 2) Standpipe revenues to be reflected in Utility Source's Rate Base, 3) it excludes income tax pass-through liability, thus, lowering gross revenue conversion factor, and 4) it segregates expenses between owner and company through proper accounting principles. These issues were addressed satisfactorily in the Proposed Settlement Agreement and will be explained more fully in Mr. Mease's testimony.

INTRODUCTION

Q. Please state your name, occupation and business address for the record.

A. My name Robert Mease. I am Chief of Accounting and Rates for the Arizona Residential Utility Consumer Office ("RUCO"). My business address is 1110 W. Washington Street, Suite 220, Phoenix, Arizona 85007.

Q. Please state your background and qualifications in the utility regulation field.

A. I joined RUCO in October of 2011. (See Attachment 1 for rate cases that I have participated in since joining RUCO). I graduated from Morris Harvey College in Charleston, WV and attended Kanawha Valley School of Graduate Studies. I am a Certified Public Accountant and currently licensed in the state of West Virginia, as well as a Certified Rate of Return Analyst. My years of work experience include serving as Vice President and Controller of Energy West, Inc. a public utility and energy company located in Great Falls, Montana. While with Energy West I had responsibility for all utility filings and participated in several rate case filings on behalf of the utility. As Energy West was a publicly traded company listed on the NASDAQ Exchange I also had responsibility for all filings with the Securities and Exchange Commission.

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to explain RUCO's support of the Utility
3 Source Proposed Settlement Agreement ("Agreement").
4

5 **Q. Have you participated in other settlement negotiations?**

6 A. Yes. I have participated in settlement negotiations in other matters that
7 have come before the Arizona Corporation Commission ("ACC" or
8 "Commission"). The majority of these negotiations have resulted in
9 reaching an accord with the utility and the other settling parties, leading to
10 the signing and support of a settlement agreement.
11

12 **THE SETTLEMENT PROCESS**

13 **Q. Was the negotiation process that resulted in the Settlement**
14 **Agreement a proper and fair process?**

15 A. Yes. The Agreement is the result of numerous hours of negotiation and a
16 willingness among the parties to compromise. The negotiations were
17 conducted in a fair and reasonable way that allowed each party the
18 opportunity to participate. All interveners had an opportunity to participate
19 in every step of the negotiation. Notice for each scheduled meeting was
20 sent to all parties electronically. Persons were able to participate via
21 teleconference, if necessary. Furthermore, all parties were allowed to
22 express their positions fully.
23

1 **Q. Did all the parties sign the Agreement?**

2 A. Yes. All parties in this case have agreed to this Settlement.
3

4 **Q. Why is a negotiated settlement process an appropriate way to**
5 **resolve this matter?**

6 A. By its very nature, a settlement finds middle ground that the parties can
7 support. All parties that participated in the settlement talks were
8 sophisticated parties who participated admirably in the ACC's regulatory
9 processes.
10

11 Settlement negotiations began only after each party had the opportunity
12 to analyze Utility Source's Application, file its direct testimony and read the
13 direct testimony of other Interveners. Of course, the Agreement in no way
14 eliminates the ACC's constitutional right and duty to review this matter and
15 to make its own determination whether the Agreement is truly balanced
16 and the rates are just and reasonable.
17

18 **SUMMARY OF TESTIMONY**

19 **Q. Please summarize your testimony.**

20 A. The Agreement reflects an outcome that is fair to both the consumer and
21 Utility Source and is in the public interest. Furthermore, this is a
22 comprehensive agreement. Its terms settle a wide range of issues that
23 were of interest to the parties.

1 RUCO supports the Agreement in its entirety because it contains
2 numerous benefits to the consumer. Those benefits include; 1) phasing in
3 rates to mitigate impact on residential consumers, 2) Standpipe revenues
4 to be reflected in Utility Source's Rate Base, 3) exclude income tax pass-
5 through liability thus lowering the gross revenue conversion factor, and 4)
6 segregate expenses between owner and company through proper
7 accounting principles. These benefits are addressed satisfactorily in the
8 Agreement and will be explained later in my testimony
9

10 **SETTLEMENT PROVISIONS**

11 **Q. In summary, what are the benefits to the residential consumer?**

12 **A.** Among the more significant benefits to the residential consumer:
13

- 14 • Phase-in rate increases to mitigate impact on consumer – Company
15 agrees to waive the carrying costs associated with the phase-in.
16 (Sections 2.6 & 3.6)
- 17 • Lowering overall Requested Percentage Increase in Revenue from
18 125% down to 60% for the water division, resulting in lower rates for
19 residential consumers, by including Standpipe revenues in Rate Base
20 (Section 2.1), and by eliminating income tax pass-through which
21 reduces Gross Revenue Conversion Factor. (Sections 2.4 & 3.4)
- 22 • Lowering overall Requested Percentage Increase in Revenue
23 approximately 11% for the wastewater division from what was

recommended in the ROO, resulting in lower rates for residential consumers.

- Segregation of expenses between owner and company through proper accounting principles. (Section 4.9)
- Water system analysis to be completed with corrective actions taken to identify and correct issues identified in the water system. (Section 4.2)

PUBLIC INTEREST

Q. How is the public interest satisfied by the Agreement?

A. At the most fundamental level, the Agreement satisfies the public interest from RUCO's perspective in that it provides favorable terms and protections for residential consumers as defined above. The Agreement also satisfies the public interest by providing a fair and balanced approach to addressing the Company's concerns on required costs and revenue.

AREAS OF IMPORTANCE

Q. You mentioned a couple areas of importance that are critical for RUCO to sign on to the Agreement. Would you like to address them?

A. Yes. RUCO has consistently maintained that allowing entities with pass-through taxation to collect income tax from consumer rate payers is not sound policy. The Agreement addresses RUCO's concerns and RUCO supports it fully. Additionally, as Commissioner Forese pointed out at Open Meeting, accounting measures need to be put in place to segregate

1 the duties and expenses between the owner and company. This was
2 readily agreed upon by all parties and included in the Agreement. This
3 provision will protect residential consumers moving forward. Finally, this
4 Agreement is satisfactory to the two ratepayer intervenors and appears to
5 be acceptable to the impacted community which is always an important
6 consideration of RUCO.

7
8 **Q. Regarding these four areas were there any that were more critical to**
9 **RUCO's becoming a signatory?**

10 A. Yes. The income tax pass-through and following accepted accounting
11 principles needed to be resolved before RUCO could sign on and they
12 were in the Agreement.

13
14 **Q. Does this conclude your testimony on the Agreement?**

15 A. Yes it does.
16
17
18
19
20
21
22

2 **Attachment 1**

3 **Robert B. Mease – Rate Case / Regulatory Participation**

7